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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHAK/AMEMBASSY ANKARA 4930
RUEHBJ/AMEMBASSY BEIJING 2691
RUEHKO/AMEMBASSY TOKYO 2556
RUEHIT/AMCONSUL ISTANBUL 3174
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHMFIUU/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
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SENSITIVE
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SUBJECT: ACCORDING TO TURKMENISTAN'S MINISTRY OF FINANCE,
ALL IS WELL, FOR THE LONG- AND SHORT-TERM

REF: 08 ASHGABAT 1394

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: According to one of the top officials at the Ministry of Finance, Turkmenistan's exchange rate will remain fixed for at least the next year in order to maintain stability and confidence among foreign investors. She said Turkmenistan's economy is growing, inflation is down, and the country is working towards getting the most from its purchasing dollars by leveraging its resources to buy in bulk and use savings to benefit people. The official mentioned "confidence of foreign investors" and private sector development several times, but did not acknowledge excessive bureaucracy and other hurdles. She said that Turkmenistan plans budgets using conservative revenue estimates for its gas exports and that this situation is stable due to its regular customers (Russia and Iran). The official expressed the opinion that nationalization of banks all over the world as a result of the international financial crisis will be a long-term situation. Although she claimed strong growth in Turkmenistan's economy, especially the oil and gas sector, there could be problems if the country cannot meet its commitments to deliver gas to its regular customers in the next few years. END SUMMARY.

MONETARY POLICY

13. (SBU) Head of the Ministry of Finance Government Finance Consolidation Department, Galina Romanova -- who knowledgeable people in Turkmenistan's business and finance circles often consider the de facto minister due to her institutional knowledge and overall competency -- said in a meeting on March 11 that the Ministry has been working closely with the International Monetary Fund on currency exchange rate issues. She said the IMF has counseled Turkmen officials that it is in the best interest for the country's -- and citizens' -- financial stability to maintain a fixed exchange rate for the next year at least. Romanova said that Turkmenistan made this decision in order to maintain the confidence of foreign investors.

STATUS OF TURKMENISTAN'S PRIMARY INDUSTRIES: PETROCHEMICALS
AND TEXTILES

14. (SBU) Romanova then said that Turkmenistan's economy grew 110.5 percent over the previous year, and added that the International Monetary Fund and the European Bank for Reconstruction and Development confirmed this. (COMMENT: EBRD has stated that Turkmenistan's GDP went down in 2008. END COMMENT.) She said that gas exports continue to climb, including over last year, and that the country is bringing in substantially increased revenue due to higher gas prices paid by Russia. She admitted some decrease in textile exports, possibly because of a decrease in demand in international markets because of the financial crisis, and said that Turkmenistan was considering ways of improving the quality and variety of exported textiles that would make them more desirable. Romanova said that while textile exports do not play a large role in Turkmenistan's economy in comparison to that of the oil and gas sector, it nevertheless bears some weight on the economy and is worth mentioning. Romanova then extolled Turkmenistan's efforts geared towards decrease of expenditures on imports, including raw materials and equipment used in construction, in order to reduce prices of final products and to encourage private sector development. A side effect of this is a decrease in the inflation rate. Turkmenistan aims to increase trade with the Commonwealth of Independent States and Europe, and is working on concluding tax and other agreements towards this end.

INVESTMENT

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15. (SBU) Investment policy is geared toward growth and diversification of the country's economy, and the country is devoting 70-75 percent of its investment resources towards stimulating sectors that can have an effect in the short-term, such as agriculture, transportation, and manufacturing. According to Romanova, investment grew more than 600 percent from 2007 into 2008, which means that foreign investors have high confidence in Turkmenistan and that they feel comfortable investing in the country. Turkmenistan is using this injection of funds to support the Rural Development Plan. Romanova said that President Berdimuhamedov has long-term plans to develop the country's technological capacity, naming education, information technology, and nanotechnology as examples.

POSSIBILITY OF FALLING GAS PRICES: NOT A CONCERN, AT ALL

16. (SBU) Romanova said that Turkmenistan is not considering falling gas prices as a potential problem because the country has "regular customers" which maintain income stability, as well as stability of exports and profits. Romanova said that recent investments in oil and gas facilities have resulted in increased efficiency and quality, and therefore profits. Romanova also explained that the Government conservatively estimates income when planning budgets, which she felt is a useful means of refraining from financial overextension. She pointed out that processing gas and oil in Russia is expensive because processing plants are located far away from the sources, resulting in high transportation costs. "You have to consider all factors," she said.

WEALTH STABILIZATION FUND

17. (SBU) Romanova explained that the Wealth Stabilization Fund (reftel) will be used on certain projects that will stimulate the economy, and also to make up the difference when certain projects need additional funds. Also, the Government plans to use the fund to finance the purchase of certain products, such as construction materials and food, in large quantities in order to receive discounts for bulk purchases. Profits from this scheme will be used to fund mortgages.

CREDIT IN TURKMENISTAN REMAINS STABLE

¶8. (SBU) Romanova said that Turkmenistan's credit situation was stable "unlike in other countries all over the world," and pointed out that governments were nationalizing banks all over the world in order "to regulate the process and to influence policy of the banks." After Economic Officer pointed out that this situation is not desirable, Romanova said that she thought this situation would not be temporary.

¶9. (SBU) COMMENT: Romanova, and other high-level apparatchiks, have thrived in a command economy system and no doubt feel vindicated by the events around the international financial crisis. Perhaps unintentionally, she gave the impression of satisfaction with current gas prices that the Turkmen receive from their regular customers, mainly Russia and, to a lesser extent, Iran. But, despite Romanova's upbeat outlook, the global crisis is being felt even here. In his remarks to the assembled Council of Elders on March 6, President Berdimuhamedov said the crisis is "negatively affecting the country's economy ... above all, export-oriented industrial sectors." The President noted that revenues have been lost due to drops in both demand for and prices of Turkmenistan's export items. On the positive side, he asserted that Turkmenistan's banking sector has been unaffected by the crisis because of the country's complete lack of foreign debt, and that as a result, the national currency remains strong. Perhaps the government revenue

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situation will become more acute in coming years if export prices continue to fall, or if the country cannot meet its commitments to deliver gas. END COMMENT.
MILES